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technical quality and in commercial organization. But they were growing in an atmosphere of protectionism, intensified in the thirties by a system of exchange regulations and import quotas, and they became dependent, with few exceptions, on a narrow national market. Consequently the competitive spirit was alien to the Hungarian entrepreneur. He did not naturally think of extending markets by reducing costs and prices, and was rather monopolistically minded, bent on securing profits by charging high prices. Thus the tendency, then prevailing internationally, of industrial and agricultural prices to diverge to the disadvantage of the latter, had been accentuated. These developments furthered industrial expansion, enabling industrialists to extend their capital by ploughing back considerable profits. In the absence of a capital market this was virtually the only way of financing. High industrial profits, however, caused discord, sharpened antagonism between the different classes of society, and made industry and industrial capitalism unpopular.

Industrial development implied decreasing imports of finished products. But Hungarian industry was, as it still is, largely dependent on imported raw materials, particularly on imports of timber, metals, and cotton. Industrial production cannot be carried on unless the necessary materials can be paid for by exports. The exports had, moreover, to cover the deficit in the invisible items of the balance of payments. On the average of the period 1933–7, 44 per cent of the total imports consisted of raw materials, 29 per cent of semi-finished products, and 27 per cent of wholly manufactured goods. Of exports, roughly 60 per cent were unprocessed food—wheat, cattle, pigs, poultry—and raw materials, 10 per cent semi-finished products, and 30 per cent manufactured articles. During the period in question exports amounted to about 12 to 13 per cent of total national production.

The productive capacity of Hungarian industry was enlarged between 1938 and 1943 by the launching of a public investment programme. Yet the consumptive power of the country was not extended: it was, in fact, contracted by the steadily increasing inflation. The expansion of industry during these years was, of course, part of the effort of rearmament, and was also intended to feed the insatiable appetite of the Third Reich.

The war made inroads on the country's enlarged industrial capacity through bombing, through damage inflicted during the campaign of 1944–5, and through Russian dismantling in the first phase of the occupation. It was not capacity, however, which set limits to production after the end of the war. The decisive limitation was the lack of coal and raw materials along

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CHAPTER III

INDUSTRIALIZATION AND ECONOMIC NATIONALISM AS RULING IDEAS

THE fundamental conception of the Three-year Plan of 1947 was to secure State control over the economic life of the country. It reflected a collectivist view, that the uses of the scarce resources of a shattered economy have to be co-ordinated by a central authority, so as to speed up reconstruction for the benefit of the community. The Plan was drawn up on the assumption that the investments required by it must be financed from domestic resources. The possibility of Hungary's participation in Marshall aid had already been blocked by Russia's decision when the Plan started. Thus the only source from which the assistance of Western capital could have been hoped for was excluded. If substantial amounts of capital expenditure were to be extracted from an economy with an extremely low income level, measures amounting to compulsion were needed to ensure the requisite saving.

The economic basis of the Plan when put into operation was a mixed system of private and public ownership in industry.[1] Direct public control was then extended only to monopolistic industries. The Plan accordingly provided for fitting private enterprise activities into its framework. A further extension of public ownership was not implicit in the Plan. Later it was claimed that its execution required the nationalization of the whole of large-scale and medium industry and of wholesale trade, but it is a matter of opinion whether the extension of State ownership on this wide scale or in a lesser degree was essential to secure a smooth working of the Plan. The decision to incorporate those branches of the economy into the publicly-owned section did not result from any investigation of economic expediency; it was taken in the political sphere. The requirements of effective planning supplied a convenient argument in support of resolutions already taken.

Retrospectively the Plan might easily appear as a scheme for extending heavy industrial potential and thereby serving Russian interests, its achievements in any other field being concomitants only of this dominant objective. In its later stage, when investment rose much above the anticipated level, the

[1] See below, p. 22.

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The first decree issued by virtue of the authority given in August 1947 required enterprises to conduct their business in accordance with specific plans approved by the National Planning Department. These plans were to be set up by the leading executives for the purpose of being submitted to the Planning Department and to the competent Ministry. The obligation to prepare and submit specific plans in pursuance of the National Economic Plan was generally imposed on industrial enterprises above the level of small-scale industries—employing at least twenty workers—on all enterprises incorporated as public or private limited companies, and without exception, on publicly-owned concerns. The classes of enterprise above mentioned were bound to keep in line with their individual production quotas and capital programmes. Consequently they had to ask for a permit from the National Planning Department before carrying out the slightest capital outlay not included in their plan as approved beforehand. For others (agriculture, commerce, small-scale industry, etc.) capital outlay up to 200,000 forint—equalling about £4,000—was allowed to be carried out without special authorization. Thus a partial investment control was established even in branches of production not directly subject to the Plan. Any responsible person infringing those enactments committed, according to the decree, an offence liable to a penalty of up to one year's imprisonment.

It was found before long that the decree published in August did not cover the whole range of activities to be controlled by the planners. It had no special bearing on agriculture. In November a new edict under the Act, superseding the extremely vague definition of offences, was issued. The definition of offences against the Plan became, according to this second decree, much more specific. They were defined thus:

(1) Any divergence from the directives given by the authorities regarding the quantity or quality of production or the combination of factors; (2) the conversion or destruction of goods (including producer goods) in violation of the standards of prudent management; (3) concealment of any stores and stocks so as to withhold them from the use required by the Plan; (4) the alienation or acquisition of goods against the rules in force; (5) the use of capital, whether owned or borrowed, for purposes not covered by the specific plan approved for the enterprise concerned; (6) the absence of a system of book-keeping enabling authorities to determine whether the enterprise is conducted according to the Plan.

In contrast with the former decree, offences against the Plan were now in principle qualified as a more serious class of crime,

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CHAPTER V

THE INITIAL IMPULSE

INDUSTRIAL PRODUCTION

433 THE deficiencies of planning at the initial stages did not prevent conspicuous achievements in industry during the first Plan year, if viewed against the background of 1946–7. In the course of the year following the monetary reform, industrial output was restrained by shortcomings in raw-material supplies, the uneven flow of which also impaired labour productivity. Industrial potential was available far in excess of actual output. The losses due to war destruction were partly restored during the inflation period, so that at the time of the monetary reform capacities surpassed the pre-war level in terms of power equipment [454] (though lagging behind the peak attained in 1943). Investment during 1946–7 was not substantial. The Plan in this respect created a fundamental change. Opportunities of investment were offered, unprecedented in scale. In 1947–8 the sum placed at the disposal of industry for the extension of capital equipment was close to 800 million forint (£16 million). From the outset industrial investment exceeded the planned amount (554 million forint for 1947–8), though the difference was to a considerable extent a nominal one. Calculated at real value investment was 10 to 15 per cent in excess of estimate. It was claimed that replacement of obsolete equipment necessarily neglected during the war was not included in the figure quoted above. Four-fifths of the investment was devoted to capital-goods industries, with special regard to eliminating bottlenecks.

This extension of capacity could only yield results if supplies of raw materials became more reliable and plentiful than during the year preceding the Plan. It was the second remarkable achievement to provide for supplies sufficient to support an industrial activity so greatly increased. The utilization of domestic resources as well as increased imports had to contribute to attaining this result.

In preparation for the Plan during 1946–7 the most strenuous efforts had been made to raise coal, iron, and steel production. Though some progress was achieved, production of raw materials, except for crude oil, had been on the whole unsatisfactory in the year preceding the Plan. The conspicuous rise in

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652 moderate amount to finance investment, and the Plan accentuated the existing inflationary pressure. Capital accumulation was inadequate to meet requirements within the limits of sound financial policy. In spite of all efforts to raise tax revenue, and the pressure exerted on nationalized enterprises to produce surpluses for the Treasury, about one-fifth of total requirements had to be provided for by loans inflationary in character.

This over-straining of financial resources was naturally reflected in the state of the National Bank. Its bill-portfolio (bills of private and public concerns) rose during the first nine months of the Plan—August 1947 to April 1948—from 920 million to 1,680 million forint (the movement in the following months of the first Plan year was obscured by the change-over in the banking system). By the end of the twelve-month period the note circulation had reached 2,224 million compared with 1,592 million forint in July 1947.

INVESTMENT AND PLAN CONTROL

454 With total investment exceeding the programme the distribution of investment over the various branches of economy differed widely from the scheme originally planned.

INVESTMENT 1947-8 (CURRENT VALUES IN MILLION FORINT)

	Capital Programme	*Actual*	*Percentage of increase*
Agriculture	579	688	18·7
Mining and manufacture	555	792	43·0
Communications	427	545	27·6
Buildings, social services	235	469	99·0
Total:	1,796	2,494	38·9

In considering these swollen figures it should be recalled that their increase was to a major part due to inflationary price developments. According to official sources this change in prices was responsible for an increase of about 28 per cent, leaving a margin of roughly 10 per cent for increases in volume. If this statement is correct, it follows that in terms of real value investment in agriculture was less than the estimate, while that in communications was in line with the Plan. Thus real increases were confined to investments in industry and building. Within industry it was in the first place power production and in the second engineering which exceeded limits set for them in the programme. This was in accordance with the fundamental ideas of the initiators of the Plan. On the other hand the sharp rise in building activity was a sign of deficient control. The big

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difference between actual investment and that provided for this group in the estimates was mainly for the reconstruction of public buildings and public utilities. The National Planning Department was not in a position to induce the authorities to keep their reconstruction works within the framework of the Plan. This, however, was only one part of the story. The other was the failure to take due account of construction already under way when the Plan was drawn up. As it is, the absence of a tighter control during the first Plan period manifested itself even in investment, which was the very centre of planning.

The original Plan was divided into three one-year periods, and the foregoing statistics relate to the first year. That is the period for which they were officially compiled. But in quoting the statistics no account has been taken of the fundamental change which occurred after the first eight months in March 1948 when nationalization was extended to all manufacturing concerns employing more than 100 work-people and to all wholesale trade. This change forms the subject of the next chapter.

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435 465 511 granted; their effect on purchasing power appeared reinforced by the reduced cost of living. These developments, combined with an increased output of manufactured consumer goods, resulted in improved living conditions. There can be little doubt that more abundant supplies resulted in an appreciably higher standard of living in comparison with the level at the start of the Plan, though statistical data revealing the degree of improvement are lacking.

INVESTMENT AND FINANCE

652 •454 The first and one of the most important implications of the decision to shorten the total period of the Plan was the speeding up of the capital programme. For the financial side of the programme, the Government disposed of a banking system shaped according to the Soviet pattern, and entirely under their command. The bulk of investment was naturally financed, as before, out of the budget. It became a characteristic feature of estimates of investment that they represented minimum programmes. For the short second Plan period the estimate had been 1,100 million forint, while actual investment worked out at 1,530 million. For 1949 the corresponding figures were 4,300 million and 5,660 million forint. In a final report the latter amount appears to be raised by a further 630 million forint. In view of the tightness of financial controls, any exceeding of the capital programme (unless consequential on authorized increases in wages or prices) was impossible without a previous screening and consent of the authorities. An extension of investment, whether initiated by some Government agency or by the executives of one of the concerns, was to be fitted into the monthly financial plan, which was drawn up by the National Planning Department in co-operation with the Ministry of Finance, and had to be approved by the Supreme Economic Council. As the speeding up of the capital programme mostly affected heavy industry the extension of which was, not solely for economic reasons, the concern of the Government, initiative evidently lay mostly with the Government. Both the Government and the Planning Department were intent on extending the capital programme to the limit of technical possibility.

The increasing financial strain is reflected in the following figures:

	Monthly Average of Investment (million forint)
Plan period I	208
Plan period II	306
Plan Period III	470–520

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Investment was accelerated by 50 per cent in the second period compared with the first, and subsequently again by 50 or even 70 per cent in the third compared with the second.

In an endeavour to raise revenue for meeting requirements a new profit surtax was introduced, charging company profits which exceeded 5 per cent at rates of 30 to 50 per cent. Except in the very limited portion of industry which had not been nationalized the financial effect of this measure was nugatory. Simultaneously a purchase-tax reform was carried out, accompanied by an increase in rates. The reform secured that this form of taxation should remain the most important single item of revenue, with proceeds exceeding those of direct taxes. Further measures were taken thoroughly to exploit all sources of taxation, whether old or newly created. It seems that in spite of all these efforts the Treasury failed to raise revenue on the scale required by the increase of expenditure.

Provisional budget returns published in the official *Statistical Bulletin* relating to August-December 1948 show 3,697 million forint total revenue and 3,920 million forint total expenditure. Later, modified final figures were published disclosing a moderate surplus in place of the deficit of some 200 million resulting from the figures quoted above. It should be noted, however, that in an economy with industry largely nationalized, budget results are not conclusive without an analysis of National Bank loans. The nationalized enterprises being the most important borrowers from the Bank,[1] nothing seems easier than leaving deficits concealed in their accounts in order to relieve the budget, if this kind of window-dressing is wanted.

BUDGET ACCOUNTS, AUGUST-DECEMBER 1948
million forint (provisional)

Revenue	
Current items	3,541
Capital levy	118
Other extraordinary receipts	38
Total	3,697
Expenditure	
Current items	1,815
Deficits and subsidies	700
International commitments	449
Three-year Plan	955*
Total	3,919

* According to a statement based on computations of the National Planning Department 985·1 million forint.

[1] According to a statement of the National Bank the participation of State-owned enterprises in the total of its loans reached 70 per cent by the end of 1948.

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cerned. One reservation, however, appears to be justified. The stress placed on the development of heavy industry presumably hampered the expansion of light industry on such a scale as would have been attainable without the compulsion exerted by the Plan.

THE RATE OF CAPITAL ACCUMULATION

There is a peculiar dynamic quality inherent in the economic plans in Eastern Europe. All of them are intent on imposing a pace of development which implies strenuous present efforts for future results. An increased capital equipment has to be created to attain increased productivity. As foreign capital aid was excluded, additional equipment had to be produced from domestic resources, and to this end all available reserves had to be mobilized. It was this spirit of austerity, calling for individual sacrifice, which underlay the decision to devote 10 per cent or more of the national income to a capital programme, notwithstanding prevalent shortages.[1] This decision doubled the rate of net investment compared with pre-war, while a considerably reduced national income was also burdened with reparations to the amount of 6 per cent.

The grim determination of the planners to speed up reconstruction and the development of productive power placed the responsibility for the adoption of measures to secure an adequate capital supply on the central authorities. Individuals could not conceivably be allowed to decide upon the rate of accumulation according to their own preferences for future as compared with present goods. Compulsory saving became imperative, and it was effected mainly through taxation. From the outset all possible sources of revenue were strained to the utmost in order to produce a surplus large enough to finance the capital programme. The special capital levy proved a failure. It provided approximately 200 million in the first Plan year towards total requirements amounting to 2,500 million forint. The principal part of the funds needed was, in fact, raised from the general revenue. Consequent on the necessity to secure the means wherever they were available, an intricate multiple system of taxation was maintained. Though direct taxes with progressive rates contributed a considerable part of the revenue, the mainstay of Government finance was the purchase tax, together with other duties and monopolies falling on consumption.

A system of compulsory savings through taxation does not exclude other devices for promoting savings. Spending can be

[1] This relates to the first Plan year. In 1949 net investment climbed up to 18 per cent.

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restricted by controls and rationing. But controls must be strict, and the average income level must be high enough to leave a margin after covering the rationed products. These conditions were not present in Hungary. The Government were the more intent on encouraging voluntary thrift, in the hope of closing the gap between the amount of investment and the surpluses available for capital expenditure in the central and local government budgets. To this end high rates for savings deposits (3 to 9 per cent according to maturity) were fixed. The results achieved were poor. Even conceding the attractiveness of high interest rates, conditions—economic and political—were all against a favourable result. In April 1948, before the re-casting of the banking system, deposits totalled 1,440 million forint. Considerable as the rise was compared with the early post-stabilization period, the amount attained worked out at no more than 15 or 16 per cent of the total deposits in 1938 in terms of real value. But even in the inter-war period with bank credit on a normal scale, no proper capital market to finance investment operated.

INTEREST RATES AND THE DIRECTION OF INVESTMENT

In a system in which investment and savings are determined by the decisions of a central authority, no functional connexion exists between interest rates and the volume of investment. It rests with the central authority to fix interest rates arbitrarily, or to renounce the use of interest altogether. The Hungarian planners decided that the Investment Bank should allot long-term capital to public enterprises free of interest, except that a token rate of 1 per cent could be charged, apparently to cover the costs of running the bank. For co-operatives and applicants that are partly publicly owned, the rate of interest on capital borrowed from the Investment Bank amounts to 3 to 5 per cent. Other debtors, i.e. private enterprise, are charged with 7 to 10 per cent. By far the greatest part of the investments financed from the budget through the instrumentality of the Investment Bank comes under the first head, and does not bear interest.

In contrast with this practice, interest is charged on short-term credit to finance working capital, for public as well as for private enterprise. According to arrangements put in force under the Plan the interest rate amounted to 5 per cent for nationalized enterprises, to 12 per cent for other industrial enterprises, and to 18 per cent for commercial firms. It may be mentioned that prior to the war a rate of 12 per cent was not unusual for normal bank credit (inclusive of the margin earned

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652 453 by the private banks). When the private banks disappeared, the differential rates were directly charged by the National Bank.

The following special interest rates were in force for agriculture:

	per cent
(1) For co-operatives running collective farms	5
(2) For other co-operatives and for members of co-operatives in category (1)	9
(3) For members of co-operatives in category (2)	11
(4) For other debtors	18

The scale of interest rates can hardly be said to have been inspired by purely economic considerations. It was rather on political grounds that private enterprise had to bear considerably higher rates than that which had been nationalized. In agriculture the Government were intent on favouring collective farming by discriminative credit practices. 'Working' peasants were allowed to obtain credit on conditions similar to those prevailing before the war. For others (excluded from the co-operatives) a prohibitive rate of 18 per cent was fixed, though it was hardly more than nominal since those owning holdings over [661] 25 yokes were denied credit facilities. One decisive consideration was, apparently, to exploit even rates of interest as a weapon of class warfare.

652 454 In a capitalist system based on free competition, the investment market determines the allocation of resources among the various openings for capital enterprise, and the long-term rate of interest is its principal instrument for the purpose. The Hungarian Plan rejected that mechanism, and the question remains by what considerations the Government or the Planning Department was guided in deciding upon the allocation of capital resources among industries. At the inception of the Plan there was hardly any alternative to deciding arbitrarily upon the direction of investment into the various channels in conformity with preconceived ideas about the relative importance of capital-goods industries and of some outstanding consumer-goods industries. But as, in the course of economic progress, the application of the Plan became more and more intricate, this first rough approach had to be superseded by more discriminating methods. Under conditions when production provides only for bare necessities a programme based on nothing better than guesswork will contribute to meeting consumers' needs. As soon as the economy progresses beyond this low standard, divergencies between the anticipations of the planners' and consumers' wants are likely to arise.

652 475 The exemption of publicly-owned enterprises from being charged with interest on their investment would not itself pre-

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clude an internal calculation of interest for the use of the planning authorities for the purpose of cost accounting. The inclusion of a hypothetical charge for interest would make more realistic the obligation imposed on the enterprises to earn profits for the Treasury. Net surpluses so calculated, after taking due account of costs, including the cost of capital engaged in the enterprises, might serve as a criterion for the guidance of the planners in comparing the desirability of investment. Yet the 'profits' delivered to the Treasury are not the outcome of an appropriate system of accounting. They are derived from the excess of receipts from sales over total expenditure. Replacements are provided for from a centrally-managed depreciation fund into which the concerns are bound to pay contributions separately fixed for each branch of industry. Characteristically enough these contributions are also based on the sales of the enterprises.[1]

The absence of a calculation of capital costs from the account makes the prices of the products of heavy industry relatively low. The resulting distortion of the price structure might have been corrected by varying the percentage to be added to the costs (consisting of expenses for materials, wages, replacement, and maintenance), on account of the margin of profit to be delivered to the Treasury. But that was not done; the margin was equal for the whole range of industry.

Perhaps the underlying idea was that the paramount purpose of fostering the expansion of heavy industry would be furthered by fixing low prices for its products. But it would seem that the low prices were of little practical effect in stimulating demand. Where, as in most instances, the products were bought by one publicly-owned enterprise from another, the price was merely a matter of book-keeping, and losses on the one side balanced gains on the other.

On the other hand, in the case of exports, any underpricing inflicts a definite loss on the economy. This point is not unimportant in view of the considerable deliveries of the products concerned to the Soviet Union.

The objection might be raised that a more realistic method of cost accounting would be of little relevance for directing investment when the greatest part of it (i.e. that in heavy industry) was determined regardless of economic considerations. Yet, whatever the objectives adopted on political grounds might be, it was possible to approach them in ways either more or less in accord with economic principles. The Planning Department certainly drew up calculations to enable a rough comparison to

[1] See below, p. 86.

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454 652 be made between capital expenditure and anticipated economies, taking account of the time factor when schemes of national importance were in question. To be more specific, when they had to choose between different big power development schemes, they attempted to compare the periods within which the economies to be achieved by the several schemes would equal the capital outlay to be incurred. However, this method fails to work in hundreds of ordinary cases, whether in heavy or in light [434] industry. Without the link between the consumers' demand and capital allocation, established by the use of a rate of interest in the cost calculation, it was not possible to determine accurately whether at a given moment the allocation of means to a textile-mill or a shoe-factory was more urgent. The planners did not regard refinements of this kind as matters of consequence. They believed that their targets for the production of consumer goods accorded largely with the needs of the ordinary man, and they did not appeal to the test of cost and price to determine whether at a given moment more textiles or more leather goods would have been indicated by the consumers' preferences.

454 475 652 In an economy lacking proper methods for the calculation of capital costs a danger of capital consumption arises, especially when the executives are pressed hard to remit the greatest possible surpluses to the Treasury whether genuinely realized or not. This danger was the more acute as allowances for replacement might be fixed much too low by the Planning Department. Undue cutting down of maintenance cost was another possible device for producing unreal profits. Even the men in control could only gradually discover whether this was actually taking place. On the model of Russian practice, the disregard of capital equipment as a cost factor appears to have been a point of principle. Whatever the real reason was, it is a fact that in the course of the Three-year Plan the system of accounting applied by the nationalized enterprises did not offer a reliable basis for deciding between alternative projects of investment. The practical relevance of this deficiency should not be overestimated. Calculations anticipating future developments are usually influenced by too many factors to leave a single item a decisive role. Moreover, in a planned economy the need for keeping down capital costs might often be deliberately overruled by other considerations. Even so the disclosure by current methods of accounting of what is being done would be useful. The Hungarian authorities deprived themselves of a convenient pointer, even though subsidiary in importance, for indicating whether capital supply in certain industrial sectors should be extended or curbed.

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451 enterprises. Regulations applying particularly to the calculation
656 of the profits of private enterprises require separate mention. A profit rate of either 5 or 8 per cent on sales reckoned at factor cost[1] was fixed. It depended on the ratio between the yearly amount of sales and the capital of the enterprise which of the two rates should be employed. The higher rate was applicable when yearly sales did not amount to more than double the capital; in other cases 5 per cent was admitted. It was the competent Industrial Directorate that decided upon the classification of the individual enterprises from the point of view of profit-rate calculation. How this rough and ready system works has not been disclosed.

451 The same base was used for determining the scale of contri-
656 butions of public enterprises to the Treasury. It was the sales again that furnished the basis for the payments of the enter-
454 prises to the central depreciation fund. An earlier decree fixed
652 to that effect a wide range of rates up to 13 per cent to be paid in as depreciation allowance. These rates were, in fact, not applied. A skeleton decree authorized the Planning Department to determine the rates. There is evidence that they were fixed at a very low level, and, though contributions according to industries varied, they were not correctly adjusted to true depreciation needs. Payments due on account of the company's tax also conformed to the sales pending final adjustment. It was, in fact, a peculiarity inherent in the whole accounting system, to rule out the capital account from calculation, a practice involving, in view of the low depreciation allowances, the danger of capital consumption.

The obligation to provide for replacements by monthly payments into a fund administered by the Investment Bank was imposed on public and private enterprises alike. The common fund of the public enterprises was subdivided into an investment section and a replacement section. The former—25 per cent of the whole—might be used, on instructions from the National Planning Department, to cover minor investments. The reserves built up by nationalized enterprises could be redistributed irrespectively of the amounts paid in by individual concerns. By this provision a central depreciation fund for industry under the command of the Planning Department was created.

456 Regulations on costing aimed at preventing waste and un-
493 economical methods of production, and a series of measures

[1] Though not essential to the working of the Plan it may be mentioned as characteristic of the position of private enterprise that only the accessory bank charges connected with loans were admitted as costs. Interest could not be included in the costs; it had to be deducted from profits. This measure evidently aimed at deterring private firms from borrowing.

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471 worked, the scanty reports leaking out after 1948 indicate that
655 its functioning was far from satisfactory. Exigencies of economic life proved to be stronger than strict rules, and the rules were not adhered to in relations between suppliers of goods and their customers.

Special Investment Control

433 Imperfect synchronization of the delivery of capital goods with the rhythm of plant expansion was a difficulty hard to
• 457 overcome. It was experienced from the beginning, and could not be eliminated in the later stages owing to the rapid progress of expansion. A report published in the official Government paper by the end of 1949 reveals the handicaps of production persisting throughout the Three-year Plan. For example a special committee had to investigate conditions in a heavy industry plant of outstanding importance, where the main causes of unsatisfactory results were stated to be the lack of tools and irregular raw-material supplies for the machine shop.

454 The Investment Bank was in charge of the permanent control of investment activities, including the synchronization of operations. The allocation of funds for investment to individual concerns was determined by the Planning Department in co-operation with the Industrial Directorate concerned and the Ministry of Finance. The amounts allocated were then transferred to the account of the Investment Bank. The Bank was to supervise the execution of the work and to time disbursements in accordance with its progress. It had further to register deliveries connected with Plan investments. The causes of any delay exceeding a month had to be investigated, and a report of the inquiry had to be sent to the Planning Department and the Ministry concerned. It was the duty of the latter to take the necessary steps to prevent further delay and to notify the Planning Department of the action taken.

Defects in carrying out the investment portion of the Plan were summed up in a final report on the Three-year Plan, published by the President of the Planning Department, as follows: 'The investment plans did not reckon with the capacities of production and foreign trade. The result was that investment credit far exceeding practical possibilities (in particular the supply of equipment and the progress in construction work) was sometimes granted. Thus large amounts remitted to the Investment Bank remained unutilized, while there was a lack of funds for other investments.'

454 The control of investment in agriculture and small-scale
474 industry was handed over to the National Credit Institute of
452

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Co-operative Societies. As the centre of the rural credit co-operatives, it disposed of a network of branches over the countryside. These branch offices were insufficiently staffed with experts even before their political reorganization, which meant the expulsion of the wealthy peasants. Little is known of the extent to which the newly-established Rural Credit Councils (i.e. the Boards of the local co-operatives) were able to assist the authorities in keeping investment in agriculture in line with the Plan. The Councils were militant political bodies rather than committees of experts.

A RIGID SYSTEM

The conception of the planners was to make the economy effective by imposing a multiple system of controls on it. The National Planning Department, assisted by the different Government Departments, was the principal agency of the controls. Yet with all its wide powers, the efficacy of the Planning Department in supervision and direction was limited. Another centre of control was created by the reorganization of the National Bank. The establishment of the single-account system seemed to offer the planners a device for checking economic activities in all their successive stages.

Tightness of control was thought to be essential for the execution of the Plan. But according to the original conception control was confined to production. The Plan, as drawn up in 1947 on the basis of a system of mixed economy, envisaged a detailed regulation of production, but it was assumed that the flow of consumer goods would roughly correspond with the creation of purchasing power through increased production. This assumption failed to take account of the vicissitudes of price controls and wage policy. During its first phase the Plan did not extend its control to the activities intermediate between production and consumption, i.e. it did not apply to trade. Wholesale dealers (and even less, of course, the retail traders) were not bound to submit plans concerning their prospective turnover, though they had to report on man-power employed, or apply for approval of investment in so far as it exceeded the 200,000 forint mark. The existence of this stratum preserved a certain resilience within the economy. It proved, in a way, helpful in overcoming difficulties in the administration of the Plan, though the activities of the dealers may, in some instances, have been a nuisance to the planners. When the ceiling for the bank-note circulation prevented the allocation of credit required for carrying out production demanded by the Plan, the concerns affected some-

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CHAPTER X

AN UNBALANCED ECONOMY

SAVINGS AND CONSUMPTION

ONE of the main objectives of the Three-year Plan was to channel a much larger part of the national income than ever before in Hungary into investment. The task was the more formidable as at the start production and national income were considerably below pre-war level. Moreover, this smaller income was mortgaged by reparations due to Russia, Yugoslavia, and Czechoslovakia. In the first Plan year 6·5 per cent was diverted on this account; afterwards reduction of the amount due and an increase in the national income reduced the burden to 3 or 4 per cent.

The total amount to be invested was determined at the outset, yet in the course of the Plan period this amount was continuously enlarged. The size of investment was the given quantity, and the means for financing were to be secured in any event. A slowing down of the Plan for lack of funds was out of the question. None the less, monetary stability having been regarded as a condition favourable for carrying out the Plan, the intention was to apply methods of financing calculated to drain off purchasing power. To this end serious efforts were made to raise the greatest part of the savings wanted through the compulsory power of taxation. Voluntary savings were expected to contribute a moderate quota (10 to 15 per cent) for financing the Plan.

Compulsory savings were effected by producing a budget surplus by means of taxation and through profits on public enterprises. Beside public savings, private corporate savings were of some importance during the first phase of the Plan. The significance of the latter faded and that of public savings correspondingly increased after the general nationalization of large-scale and medium-sized manufactures. On the strength of the ruling regarding private enterprises with approved specific plans, accumulations of these concerns were placed under the control of the Planning Department. Thus from the point of view of planning three categories of savings could be distinguished: (1) public savings, (2) private (corporate) savings under public control, and (3) private savings outside the planned sector. It is remarkable enough that categories (1) and (2)

3:Kemeny G-5 (1945-48)1951 EC1 Hungary EC1

454 652 provided for 80 to 85 per cent of the requirements for capital expenditure during the first Plan year and the second shortened Plan period.

Private savings were to a certain extent absorbed by investments carried out outside the Plan. They were not of negligible importance in agriculture. There was an increase in livestock of an approximate value of 500 million forint (at current prices) in 1947–8. This sole item amounted to almost 20 per cent of the total capital programme of the Plan. The farmers were anxious to replace their livestock, and had at the beginning, in particular, very limited possibilities of procuring machinery and instruments. A smaller proportion of rural savings went into buildings. The thrift of the peasants, practised even under unsatisfactory living conditions, provided means for these investments. Many of them were also able to take advantage of prices on the black market. Later, in the spring of 1948, the peasants profited by the lifting of price control from a number of their products. Subsequently they were benefited by larger crops.

Within the system of mixed economy, accumulation in trade and in small-scale industry was also significant. These classes were able to take advantage of the black market. But the beneficiaries of profiteering mostly did not seek productive investments. Their earnings, derived from charging prices quite out of relation with the general income level, caused actual dissaving by many of the urban population. The possible degree [435] of profiteering may be gauged by the wide range of differences between officially fixed and black-market prices as registered in May 1948 in Budapest.

	Official Price	*Black-market Price*
	in forint per kg. (2·20 lb.)	
Bread	0·92	5·0
Flour	1·40	8·50
Fat	12·0	23·50
Beef	8·40	12·0
Sugar	7·20	12·50

Speculative profits were bound to encourage luxury production, and thus to divert resources from utilization in accordance with the Plan. When spent, the profits were likely to pass through the black market again. Gradually these illegal profits lost their significance owing to the tightening of controls, and even more, to the improvement of supplies. But evasion of exchange control and the concealment of illicit profits were among the factors which caused the authorities to abandon the idea of launching a loan in the first year of the Plan.

Failing the issue of loans, financial requirements could not be fully met by savings (whether compulsory or voluntary). During the first and the second Plan periods 15 to 18 per cent

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of the capital programme had to be financed by the National Bank. During the first Plan period the effect of these inflationary credits was accentuated by developments on the market of consumer goods, attributable on the one hand to the fatal shortage of food and on the other to the absence of planning in wage policy.

The conception which the planners accepted from the existing controls was to adjust wages and consumer incomes in general to the available amount of consumer goods. This was but a vague idea.[1] No current control was provided for ensuring a parallel movement between incomes and the flow of consumer goods. Soon prices as well as wages were beyond control. Price fluctuations on the food market made inroads on purchasing power, causing changes in the relative real incomes of the different social groups. The wage-earners did not fare badly so far as the distribution of available consumer goods was concerned. But the race between wages and food prices gave rise to an inflationary spiral. To what extent the purchasing power of the different groups of society—at times even that of the wage-earners—must have been heavily impaired by the rise in the cost of food was indicated by the fact that the official index temporarily exceeded by almost 40 per cent the level of July 1947. It was, therefore, inflation rather than controls which kept down consumption, helping the Government in directing resources towards capital-goods production. Similar developments might have been experienced in the wake of inflation in any economy without planning. A certain proportion of the funds invested was squeezed out of the consumers through soaring prices.

BALANCE OF TRADE

The heavy strain under which the economy laboured during the first Plan year was bound to affect the balance of trade. In the absence of a surplus of agricultural products, exports lagged far behind the planned level while imports caught up.

FOREIGN TRADE*

	1946–7	1947–8 actual	1947–8 planned
	at current prices		at January 1947 prices
	in million forint		
Imports	944	1,901	2,117
Exports	837	1,422	2,100
Balance	−107	−479	−17

* Referring to exports-imports on a commercial basis. Exports on account of reparations in 1947–8 amounted to 1,376 million forint, standing against an import surplus of 479 million in the balance of trade proper.

[1] Compare pp. 50–1.

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439 The configuration of the balance of trade of 1947–8 is typical of a country with expanding investment, rising consumption, and a concomitant inflationary pressure. As a result of the inflated current prices, foreign trade fell short of the amount planned by more than the comparison of figures discloses. According to the officially-computed indices of export and import prices, values in 1947–8 are to be reduced by at least 20 per cent to allow for the price increases which followed January 1947.

Returns of foreign trade ceased after 1948. In the calendar year 1948 exports and imports were nearly balanced (1,933 million against 1,975 million forint), thanks to the improved harvest of 1948 which permitted forced agricultural exports in the autumn months.

Allusions to a relative increase of foreign trade in 1949 suggest that commercial exports and imports moved around 3,000 million forint each, thus establishing a balance. It was, if really attained, a very remarkable achievement in view of the rapid industrial expansion and the resulting increased needs for raw materials and equipment. It has to be remembered that heavy reparation deliveries were still going on. A considerable export surplus had, in fact, to be produced in order to attain a balance of commercial trade.

ATTEMPT AT RESTORING INTERNAL BALANCE IN 1949

433 In contrast with developments in 1947–8, there was a funda-
434 mental change in conditions in 1949. Food shortage was elimi-
652 nated and the cost of living stabilized. Wage increases in the first half of this year had different economic effects from those afforded during 1947–8. The latter were largely designed to cover minimum requirements for food, whereas a rise in wages in 1949 meant additional demand for food or manufactured goods, which apparently could be met by improved supplies. This increase in supplies was sufficient, as it seems, to offer an increased attraction for tens of thousands of work-people drawn from under-employed rural districts into industrial occupations. To some extent the supply of consumer goods exceeded current production through increasing sales of furniture and other belongings by members of the middle and professional classes who had been deprived of regular income.

652 The turn of the tide on the commodity markets now counter-
454 acted the possible effects of an inflationary injection of money. The Bank of Issue was still financing a part of the capital pro-

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

gramme. In view of the vastly increased financial requirements, it is hard to believe that they could have been fully met without inflationary financial methods.[1] In 1949 the capital programme absorbed almost one-fifth of the national income, compared with one-tenth in the first Plan year. The decision of the authorities to launch a loan in autumn 1949 in support of the Five-year Plan was presumably taken in order to forestall inflationary pressure. This loan generally affected wages and salaries, and was to be paid in monthly instalments, thus tapping personal incomes. The issue of the loan was decided upon as soon as real earnings appreciably exceeded the minimum level of the early Plan period.

More effective control was enforced on the food markets, and the race between food prices and wages was stopped. A modified wage policy, combined with increased supplies of consumer goods, brought about a closer approach to a balance between incomes and supplies than had been possible in the confused conditions of the first year of the Plan. Yet the balance, even if attained, was bound to be precarious. The economy laboured under an immense strain during the closing year of the Plan. The capital programme required 18·5 per cent of the national income. And there were quite a number of further items which reduced the amount of goods available for consumption. Accumulation to some extent was going on outside the Plan. The resources for increased private investment in agriculture were provided by more satisfactory harvests and by the expansion of livestock. An item of minor importance, which was still continuing, was investment in small-scale industry. Reparations were due, though imposing a relatively diminishing burden on an increasing national income. Eventually there was, as an important item, the replenishment of stocks.

The Three-year Plan was started with depleted stocks of raw materials, semi-finished, and finished goods. According to expert estimates the expansion of production, which the Plan provided for, would necessitate an increase in stocks to the value of 6,000 to 6,500 million forint over the whole Plan period. The planners never made any allowance for this item in their estimates of the improvement of consumption. In fact, the replenishment of stocks on the scale suggested taxed current consumption at a yearly rate of 9 to 12 per cent of the national income.

In the following table the attempt is made to estimate the proportion of the national income left for consumption.

[1] As shown in Chapter VII, out of a Plan investment totalling 6,300 million forint the amount covered by the budget was 4,300 million.

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	1947–8	*1949*
	in percentages of national income	
Capital programme	10·5	18·5
Private investment	3–4	2–3
Reparations	6·5	3·5
Replenishment of stocks	10–12	9–11
Total burden	30–33·0	33–36·0
Available for comsumption:		
from domestic sources	68·5	66·5
Residue of balance of trade	2·5	—
Total	71·0	66·5

The planners claimed that the capital programme was *net* investment, excluding replacements, and their computations of national income were drawn up accordingly. But this claim was not free from uncertainty, for a certain amount of the disinvestment going on was not taken into account. An item which was not negligible in importance in this respect was the deterioration of house property. A part of the rent was earmarked for maintenance and repairs, but this was not sufficient by itself to prevent the deterioration, and the owners found themselves deprived of any net yield. There is also reason to suppose that there was a certain amount of disinvestment in industry. It has been seen that the executives of public enterprises were placed under pressure to produce financial results. It is inherent in a system of this kind, especially one which has no adequate accounting methods, that some part of the surpluses disbursed really represented capital consumption, so that net investment under the Plan was less than was officially claimed. No estimate is possible of the correction to be made in the rate of capital accumulation on account of such disinvestment.

But that is an issue of the future, not directly affecting the actual position. The crucial point is a capital accumulation amounting to roughly 30 per cent of the national income, if the indispensable additions to stocks are included. The curtailing of current consumption by that rate would hardly be conceivable in a country of the income level of Hungary unless under a heavy political pressure.

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1948	*Total Index*	*Food*	*Clothing*
January	128·4	153·1	113·2
February	132·6	159·9	113·2
March	130·0	154·8	112·7
April	130·6	156·3	112·1
May	132·5	158·5	112·8
June	124·2	142·1	112·8
July	117·0	128·0	112·8
August	115·2	124·1	113·4
September	110·1	113·9	114·0
October	114·8	120·6	114·0
November	115·7	122·8	112·6
December	115·3	122·3	112·6
1949			
January	113·9	119·6	112·6
February	111·4	114·6	112·6

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Table V

Finance and Credit

(1) *Budget*

	1937–8	*1946–7*	*1947–8*	*1949*
		million forint		
Total expenditure of which	6,215	3,701	6,300	13,000
Current on goods and services	5,755	2,265	3,758	—
International commitments	—	1,436	1,709	—
Plan investment	—	—	833	4,300
Total revenue of which	6,178	3,703	6,397	—
Current	6,084	2,891	6,047	—
Borrowing and other extraordinary	99	812	359	—

(2) *National Bank of Hungary*

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	Gold and Foreign Exchange	*Bills*	*Loans on Current Account*	*Advance to Treasury*	*Notes in Circulation*	*Sight Liabilities*	*Deposits*
				million forint			
1946							
31 August	278	374	—	—	356	147	—
31 December	338	495	—	342	968	161	—
1947							
31 July	501	920	—	340	1,592	93	—
31 December	501	1,663	—	340	1,992	319	—
1948							
31 July	452	1,730	779	340	2,224	334	730
31 December	556	50	5,981	337	2,817	29	3,691
1949							
31 July*	600	3	7,331	309	3,094	3	4,716
31 December	512	—	8,557	288	2,629	3	6,492

* Banking reform in progress.

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(3) *Total Deposits of Commercial Banks and Savings Institutions*

	million forint
1938	11,630
1946 August	81
December	435
1947 July	791
December	1,265
1948 July	1,432*

* Including 389 million forint held by the National Bank, the transfer of the assets and liabilities of the other banks to the National Bank being in progress.

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TABLE VI

DEVELOPMENTS IN TRANSPORT

(1938 = 100)

	1946–7	1948	1949
Goods			
Railway	77·8	128·8	148·6
Road	183·7	218·7	223·4
Shipping	22·6	68·0	76·0
Passengers			
Railway	120·0	204·0	222·0
Road	58·0	159·0	289·0

TABLE VII

CAPITAL EXPENDITURE UNDER THE PLAN[1]

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	1947–8	Total Plan Period
	million forint	
Agriculture	688·0	3,255
Mining and industry	792·0	2,987
Communications	545·4	1,957
Building (urban housing, social, and cultural)	468·7	1,844
Total	2,494·1	10,300*

* Inclusive of 257 million forint trade investment.

TABLE VIII

DETAILS OF INVESTMENT IN 1947–8

	Million forint	Per cent of Programme
Agriculture		
Directly into agricultural production	335·2	127·3
Agricultural training	24·4	97·4
Industries serving agriculture*	124·6	109·3
Rural electrification, housing, and roads	203·7	115·1
Total	688·0	118·7
Mining and Manufactures		
Mining	161·5	115·4
Iron, steel, non-ferrous metal, and engineering	293·9	124·5
Electrical power generation	143·2	286·4
Textiles	68·9	186·3
Chemicals	64·5	97·8
Miscellaneous†	59·8	196·3‡
Total	792·0	143·0
Communications		
Railways	238·9	136·0
Roads	159·4	146·8
River, air, tramway, and postal services	147·0	102·8
Total	545·4	127·6

* Including the production of tractors, fertilizers, etc.
† Including building materials, food, leather, paper, and wood manufactures.
‡ Excluding leather for which no target is given.

[1] [The Hungarian three year Plan of 1947-9--Analyst]

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	Million forint	*Per cent of Programme*
Building		
Urban housing	111·7	144·9
Hospitals and other social service buildings	117·0	143·5
Schools and scientific institutions	55·3	113·0
Administrative buildings for general and local authorities*	184·7	772·9
Total	468·7	199·2

* Including aqueducts and sewage installations.

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TABLE IX

1947–8 PRODUCTION IN MINING AND MANUFACTURES COMPARED WITH PLAN AT JANUARY 1947 PRICES

	Million Forint	*Per cent of Programme*
Total Mining	754·1	106·4
Steel (unmanufactured)	373·8	108·9
Total Manufactures	12,468·4	104·5
Iron, non-ferrous and engineering	3,455·7	123·3
Electricity generation	680·5	120·9
Chemicals	1,260·1	109·3
Textiles	2,319·7	95·2
Food industries	2,865·1	86·8
Other industries	1,887·2	112·5

TABLE X

1949 PRODUCTION IN MINING AND MANUFACTURES COMPARED WITH PRE-WAR

(1938 = 100)

Iron ore	114	Bicycles	283
Bauxite	104	Motor bicycles	728
Coal	127	Electric power	168
Crude oil	1,169	Cement	162
Steel	131	Sheet glass	244
Aluminium	1,110	Phosphate fertilizers	208
Machine tools	3,040	Nitrate fertilizers	182
Railway waggons	320	Vegetable oils	182
Locomotives	822	Cotton fabric	119
Lorries	190	Woollen cloth	125
Tractors	470	Footwear	122
Agricultural machines	332		

THE BILLION PENGOE PLAN OF 1938

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In March 1938, the Hungarian Government announced that legislative steps would be taken to enable the government to carry out a Five Year Plan to improve the defensive powers of the country and foster industrial and agricultural production. The motives of the plan were twofold. One was to increase and equip the army and make up for the disparity in military strength relative to Hungary's neighbors caused by the limitations on armaments imposed by the Peace Treaty of 1920. The second was to forestall a serious setback in the boom which, started in 1933, showed signs of slackening in the second half of 1937.

Total costs were estimated at 1 billion pengoes,[1] that is, 200 million pengoes per year. This meant roughly doubling the volume of investments which had swallowed up rather less than 6 percent of the national income. Six hundred million pengoes were to be covered by taxes. A special progressive capital levy was introduced for the purpose and was to be paid in ten half-yearly installments. Four hundred million pengoes were to come from a loan. The first part of the loan was taken over by banks, insurance companies and business corporations, and propaganda and some pressure was used to enlist popular support.

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Roughly three fifths of the billion pengoes were to serve the army and industry, one fifth was assigned to transport and communications, and one fifth to agriculture. Besides the expansion of heavy industry demanded by military considerations, the principal projects listed in the act of parliament were the following:

(a) improvement of the transport and communications system through the building of roads and bridges and other installations;

(b) speeding up the execution of an ambitious irrigation scheme, begun in 1937, involving the irrigation of 172,000 hectares[2] of land and carrying out regulatory work on rivers and inland waters;

(c) encouraging the investigation and better utilization of the country's mineral wealth and raw materials in general;

1. One pengoe (1938) - $0.19. Official rate: $0.294
2. One hectare = 2.471 acres

same authority, is unfortunately not available in this country. 185 X

The analysis of the Three Year Plan is thus based on material that leaves very much to be desired. However, where possible, indication was given of progress made in the interwar period and during World War II and it is hoped that these data, not generally accessible, will supply a background for a realistic appraisal of the plan and its achievements.

Machinery of the Plan[1]

The plan, in the form accepted and made into law, contained only broad outlines. However, machinery was set up to work out the details and to control the execution of the plan. This machinery provided a National Planning Board, an advisory body consisting of an equal number of representatives of all the parties of the government coalition and representatives of various organizations like the Trades Union Council, National Center of Cooperatives, etc. Its resolutions were not binding unless endorsed by the Supreme Economic Council or the Cabinet. 471

The actual work of elaborating the details of the national plan and coordinating within its framework the plans which the individual establishments had to prepare was the duty of the National Planning Office, a government department. When set up, its head was a collaborationist Social Democrat and its secretary-general was a Communist. Most, if not all, key posts were filled by Communists. The Planning Office was given power to control all investments. None of any size could be made by any corporation, not even out of its own funds, without the permission of the Planning Office.

To control the execution of the plan, each establishment was required to appoint a plan agent whose duty was to report on progress made and factors preventing or retarding progress.[2] The Investment Bank, set up to replace one of the nationalized commercial banks, was an additional instrument of control. However, as it had no funds and no policy of its own, it was only the accountant and the cashier of the Planning Office. More important was the role of the reorganized Bank of Issue which became the banker of nationalized industry with special functions and powers. [454] [453]

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our People," Social Review, Vol. V, No. 3 (1950), pp. 131-151.

2. Early in 1949, after the large-scale nationalization of industry, the plan agents were removed and their functions were transferred to the managers of the establishments who were appointed by the government.

1 [i.e. the Three Year Plan of 1947-1949]

The plan envisaged total investments in three years of 6.6 billion forints in staggered installments of 1.8, 2.2, and 2.6 billion forints.[8] This represented new investments over and above maintenance and depreciation, and exclusive of increases in livestock and inventories.

In the blueprint the necessary increase in inventories was estimated as 30 billion forints, a rather low estimate. The very detailed plan of the Social Democratic party put it at 6.5 billions. As inventories were a fraction of their prewar volume when the plan was launched, and their increase was a prerequisite to high level economic activity, the figure in the Social Democratic plan would appear to be a more reasonable estimate, in spite of its staggering size. With this addition the burden of investments becomes roughly twice as high.

In the interwar period investments fluctuated between 3 and 7 percent of the national income which was probably an underestimate;[9] but there were no "international liabilities" or reparations to pay which in 1947-48 were expected to absorb slightly less than 6 percent of the national income. In fact, they amounted to nearly 7 percent of the national income.

The plan did not a priori exclude a foreign loan and even listed certain additional investments should a foreign loan become negotiable. But it is safe to say that a foreign loan was never seriously considered.

Taking the period as a whole, 67 percent of the total investments were to be met out of Treasury funds, 18 percent from the funds of local authorities and other public bodies like the National Social Insurance Scheme. The balance of investments were to come from the following: four percent from cooperatives, 2 percent from the mixed Soviet-Hungarian companies, and 9 percent from private sources. In the first year the proportion supplied by public funds was to be greater than in the next two.

The increased volume of savings was to provide the funds needed to build up inventories.

Government revenue was to be increased from 2.4 billion

8. At the official rate one forint is worth $0.0852. The forint was overvalued in relation to the hard currencies.

9. A detailed unpublished study of the National Bank put them in 1937-38 at 575 million pengoes, some 2,300 million forints, which was over 10 percent of the national income. The valuation of real investments in agriculture was one of the main sources of the difference. The yearly increase in inventories was estimated at 180-200 million pengoes, about 700-800 million forints.

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

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forints in 1946-47 to 4.7 billion in 1947-48 and finally to 6.2 billion in 1949-50.[10] A special tax was to be introduced with a total estimated yield of 1.7 billion forints, over 500 million in the first year and over 600 million in the third. It was expected that 85 percent of the total investments of the state would be covered by tax receipts.

Out of the total of 6.6 billion forints agriculture was to receive 2.0 billions, mining and manufacturing industry 1.7 billions, transport and communications 1.7 billions, and 1.2 billions were to be spent on building, excluding industrial construction. In the first year, while total investments were to be 1.8 billion forints, less than one third of the grand total for three years, investments in agriculture were to amount to 0.6 billion, in industry to another 0.6 billion, in transport and communications to 0.4 billion, and in building to 0.2 billion.

The share appropriated for agriculture was actually much smaller than these figures indicated because some of the investments listed under "agriculture" were to be spent on expanding industrial capacity which would benefit agriculture - the production of tractors, fertilizers, etc., and also on building roads in rural areas and supplying villages with power, etc. Without these, agricultural investments proper, including private investments of farmers, were to amount to around 1.0 billion forints, only half of the sum allotted in the official plan.

In the first year the budgeted sums were exceeded all along, partly due to a rise in prices which brought the official wholesale price index up by 10 percent in spite of price controls. At current prices investments totaled 2.5 billion forints, an increase of 39 percent over the sum budgeted. It was claimed that the volume of investments was about 11 percent greater than originally planned. Both figures excluded the increase in inventories.

In 1949 actual investments, without the increases in livestock and inventories, absorbed 18.7 percent of the national income, against 10 percent as planned. As the national income was 26.8

10. When the details of the plan were being worked out the 1947-48 budget was not yet ready. Actually it worked with total expenditures of 5.3 billion forints (excluding expenditures of state-enterprises) and provided 800 million forints for investments. The report gives 6.3 billion forints for actual total expenditures and 833 million for total investments out of Treasury funds which do not agree with the figures of the closed accounts of the government. There investments are given as 562 million forints. Actual expenditures in 1946-47 were 4.0 billion forints.

billion forints (at January 1947 prices), the volume of investments must have been 4.8 billion forints. It was stated that an additional 5.3 percent, 1.5 billion forints, went to increase inventories, thus total investments absorbed 23.7 percent of the national income and amounted to 6.3 billion forints.

With such tremendous effort the per capita net investments in Hungary were less than one third of those in the United Kingdom, slightly more than half of those in Western Germany, and half of those in France where they were much smaller in relation to the national income.[11]

Taking the plan period as a whole, actual investments at current prices amounted to 10.3 billion forints, which was 56 percent more than originally planned, while the volume of investments was 25 percent greater and amounted to 8.3 billion forints.

There have been great changes in the financing of the plan, both in the first year and in the period as a whole. In the first year state investments exceeded the budgeted sum by 7 percent, the sum total amounting to 1.4 billion forints. While ordinary revenue yielded a much larger sum than was budgeted, the yield of the special capital levy was much less than expected and the plan loan had to be dropped altogether. Thus about one third of the public investments had to be financed out of credits, a far larger proportion than planned. Investments by local authorities and other public bodies exceeded the budgeted sum by 96 percent. On the other hand, the investments of the mixed Soviet-Hungarian companies were only 65 percent of the budgeted sum, an illustration of their special standing in the Hungarian economy. The cooperatives lagged behind even further. On the other hand, private investments were nearly 3.5 times greater than budgeted, in spite of the large-scale nationalizations in March 1948. Over 40 percent of private investments consisted of investments by farmers which also exceeded the budgeted sum. These facts contrast oddly with the charges of sabotage leveled against industrialists and farmers.[12]

As a result of the changes in the total and the varying rates

11. Cf. U.N. Economic Commission of Europe, "Economic Survey of Europe," (1949).

12. The report obscured the large amount of private investments by adding private investments in manufacturing industry prior to the nationalizations, 142 million forints, to state investments in industry reducing the sum total of private investments from the true 418 million forints to 276 millions and increasing total state investments in industry from 353 million forints to 495 millions.

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

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of increase in the sub-totals by main groups of investors, the pattern in the first year showed the following picture against the blueprint.

	Percentage of total, first year	
	Planned	Actual
State	73.8	57.1
Local authorities	15.0	21.2
Cooperatives	2.0	0.9
Mixed Soviet-Hungarian companies	2.4	1.1
Private investments	6.8	16.8
Others (foreign credits)	---	2.9
Total percentage	100.0	100.0
(Total, billion forints)	(1.8)	(2.5)

The very meagre Final Report and the papers published on the plan do not give any details on finances. Private investments must have dwindled to an insignificant sum, partly as a result of the large-scale nationalizations of 1948-49, partly as a result of the impending collectivization of agriculture which dried up the most important source of available private funds. Actual investments out of budgetary means reached 4.3 billion forints, against 3.3 billion as budgeted. Total state investments may have amounted to 6-7.0 billion forints.[13]

The large increase in note circulation in spite of drastic changes in the pattern of payments designed to curb the use of cash seems to suggest that the Bank of Issue bore a much larger share than was originally planned or was justified. The fact that the plan loan, dropped in 1947-48, was resorted to in September 1949 to bring in 500 million forints, can be taken as a further indication that purchasing power needed tapping.[14]

13. Total investments 10.3 billion; investments in first year 2.4 billion; investments in the last five months of 1948 assumed to be pro rata about 30 percent greater than in 1947-48.

14. Officially to raise funds for the Five Year Plan to start several months later, the plan loan brought in 753 million forints and was a forced loan as all people with fixed incomes had to contribute their predetermined share deducted in monthly installments. As investments under the Five Year Plan were to total 8.2 billion forints in the first year, the loan could not contribute substantially towards financing it. But its effect on available purchasing power must have been noticeable. Before the loan was launched the note circulation was 3.3 billion forints, against 1.6 billions on 31 July 1947, the day before the Three Year Plan was started.

There have also been significant shifts in the absolute and relative size of allocations. In the first year the sums spent on building, excluding industrial construction, were nearly twice as high as budgeted. Manufacturing industry exceeded the budgeted sum by 50 percent, transport and communications by 28 percent, agriculture by 18 percent, mining by 15 percent. The final picture looks different. Manufacturing industry, including mining, tops the list with an excess of 84 percent. Next comes building with 58 percent and agriculture with 50 percent. In transport actual investments were 18 percent higher than budgeted.

The distribution of the sum total invested in the whole period of 29 months was the following:[15]

	Percentages of the total	
	Planned	Actual
Agriculture	30.4	31.6
Manufacturing industry inc. mining	26.5	29.0
Transport and communications	25.4	19.0
Building	17.7	17.9
Others	---	2.5
Total percentage	100.0	100.0
(Total, billion forints)	(6.6)	(10.3)

It has to be noted that, as was pointed out above, roughly half of the investments officially listed under "agriculture" come properly under the other headings.

Agriculture

In agriculture the plan counted on an increase in gross output from 7.55 billion forints in the first year to 8.97 billion by the end of the third. The prewar value was 10.43 billion, the 1946-47 value 5.76 billion forints.

No startling changes were planned in crops and those scheduled were in line with the prewar policy which sought to decrease the total acreage under cereals, notably wheat, and to increase that under cash and fodder crops. A moderate decrease in the acreage of wheat, rye and oats was to be offset by a relatively smaller increase in the acreage under barley, corn, potatoes, sugar beet, and a much larger increase in the acreage under oil

15. The details of the investment program are given in Tables I and III in the Appendix.

8: Schweng S-4,5 (no date) 1951 ECI Hungary ECI

of the mark set. However, this had been set at only 87 percent of prewar. Thus crops could be 77 percent of prewar, apparently due largely to the poor yield of corn and potatoes. The per unit yield of wheat was exactly as high as planned, 1.3 tons per hectare (prewar average over 1936-40, 1.48 tons per hectare); rye was slightly better than expected, 1.15 tons per hectare, the same as prewar.[17]

Against the poor results in crop farming, the livestock figures as reported are surprisingly good, especially in view of the fact that the plan did not run the full three years but only 29 months. The cattle population is supposed to have reached 2.1 million head which is 26 percent higher than the figure planned for 1950 and 10 percent higher than the prewar figure. The pig population was claimed to have increased two and a half times in the plan period, but no dates were given. Without them the increase is meaningless and no estimate of the actual size is possible because of the large seasonal variation. It was stated that at the same time there had been a 78 percent increase in per capita meat consumption. The number of horses increased more slowly than expected and was 74 percent of prewar, against the expected 78 percent.

Investments in agriculture, both direct and indirect, were budgeted at 2.0 billion forints in three years, 0.58 billion in the first year. In the first year actual investments exceeded the budgeted sum by 18 percent, largely because of the substantial private investments of farmers. Total agricultural investments in 29 months amounted to slightly less than 3.0 billion forints, 50 percent more than budgeted and the volume of investments was claimed to have been 34 percent greater than planned.

The most important result of the investment program was the establishment of 221 tractor stations with 3,800 tractors and a large amount of other agricultural machinery. Altogether some 4,500 tractors were added to the stock of 12,500. Other investments include the increase of the irrigated acreage by 15,000 hectares to a total of 26,000 hectares,[18] the setting up of sixteen stations for plant breeding and seventy-three stations for artificial insemination,[19] the building of 40,000 cubic meters of silos, and the reforestation of 59,000 hectares. As to indirect

17. For changes in the volume of aggregate output, see Tables IV, Va, and Vb.

18. Mainly for the growing of rice. Rice is now grown on 14,000 hectares, against 5,000 hectares before the war.

19. Sixty-two for horses, ten for cattle, one for sheep.

investments in agriculture, the building of an estimated 120,000 cottages, mostly out of private funds, and the electrification of 500 villages are cited, besides the reconstruction of a large fertilizer and explosives works, the enlargement of a big tractor and armored car plant, etc.

A rather surprising achievement was the great increase in the area of the state-owned estates to 312,000 hectares from 151,000 hectares in 1938. In addition, 213,000 hectares were farmed by collectives. As all the forests became state property in 1945 and the state also owned fisheries and other agricultural property, the total "collective" sector in agriculture covered 1.5 million hectares—18 percent of the total acreage and 7 percent of the acreage under crops.

Mining and Metallurgy

The plan aimed at raising the value of the gross output of mining and metallurgy from 1.1 billion forints in 1946-47 to 1.2 billion in the first year and 1.5 billion in the third when a level 38 percent above prewar was to be reached. The prewar output was 1.2 billion forints. As there had been considerable development in the years 1938-44, and the gross output may have been near the 2.0 billion mark in 1944, the mark set was somewhat lower than the level that had been reached.

The goals looked more formidable when compared with the output in 1946-47, although recovery in mining, especially coal, had been fairly quick. They are set out in the following table:

Output, million tons

	Planned		Actual		
	1949-50	1947-48	1946-47	1948	(1943)
Coal	11.60	9.30	7.75	9.34	(12.70)
Iron ore	0.28	0.21	0.21	0.30	(0.34)
Bauxite	0.40	0.22	0.25	0.54	(1.00)
Oil	0.66	0.54[20]	0.64	0.04	(0.84)

For the development of the mining industry, 493 million forints were earmarked. This sum was to be used for the reconditioning of existing mines, some mechanization of coal mining, the developing of new pits, and the building of two flotation plants to utilize low-grade ores.

20. Oil production was forced during the war under German pressure and was maintained at a high level under Russian management in 1945-47. It had to be reduced in order to prevent the untimely exhaustion of the wells.

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In 1949 production, including power, is claimed to have passed the goal set originally for 1949-50 by 21 percent. Thus the value of industrial production at January 1947 prices must have been 20.8 billion forints, against the expected 17.2 billions, 52 percent higher than in 1938, when only a 27 percent higher output was planned. Leather was the only industry where the output was below that of 1938 by 12 percent. In the others the excess ranged from 11 percent (textiles) to 112 percent (engineering). The figures reveal a shift in production from consumer goods to construction goods, but not without the loss in quality which accompanied the drive for high physical output and was the subject of numerous complaints. The output claimed is decidedly very high but not improbably so. Available published sources do not contain enough detailed information for checking it.[32]

The original investment program in the manufacturing industry, excluding power, totaled 944 million forints for the full period. The items classed under agriculture meant some additional 200 million forints. Of this total 456 million forints, or, with the appropriate addition, about 500 million forints were to be spent in the first year.

In the first year industrial investments exceeded the budgeted sum by over 52 percent. The chemical industry was the only one where the budgeted figure was not reached. The excess was not uniform and ranged from 9 percent (paper) to 220 percent (food). In the most important group, in the iron and metal industry and in engineering, the excess was 24 percent.

The final figure for the whole 29 months was over 3.0 billion forints, more than three times higher than that budgeted in spite of the shorter period. The volume of investments was claimed to have been 37 percent greater than planned.[33]

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32. Tables IV, Va, and Vb give the volume of output of the principal industries, and Table VI the physical output of the principal products computed on the assumption that the percentages given in the Final Report and the other sources used were based on constant prices or physical output. ↑

33. The blueprint, the First Year Report and the Final Report of the Three Year Plan are not consistent in classification and detail. Mining, metallurgy and power are not always separately given. The 3.25 billion forints given in the Final Report as industrial investments include mining, metallurgy and power, but do not include those investments in agriculture which ought to have come under the manufacturing industry. The 3.0 billion forints given above is a rough estimate. Originally it was to be about 1.7 billion forints.

↑ [see cat. 116, pp 70-72 — Analyst]

The report lists the following more important investments:

New construction:
- Assembly plant for railway trucks (Ganz Works, Budapest)
- Assembly plant for shipyard (Ganz Works, Budapest)
- Plant for the manufacture of carbon black from natural gas
- Sulfuric acid and caustic soda works (Hungaria Works, Budapest)

Reconstruction and extension:
- Ironworks in Csepel, Diosgyoer, Ozd
- Ganz Iron Works in Budapest
- Ganz Shipyard in Budapest
- Ganz Electrical Engineering Works in Budapest
- Hoffher-Schrantz Engineering Works in Budapest
- United Electrical Bulb and Radio Tube Works in Budapest
- Nitrogenous Fertilizer Works in Pet
- A number of plants in the medicinal drugs industry
- A number of plants in the synthetic paints and dyes industry

Some plants are listed in the blueprint which are not mentioned in the summary of the Final Report, although their construction and/or expansion had been reported elsewhere. The more important ones are the following:

- Steel pipe and tube works. Expansion. (Manfred Weiss Works, Csepel)
- Aluminum rolling mill and foundry. Expansion (Ibid.)
- Aluminum oxide plant. New construction. (Almasfuezitoe)
- Plant to manufacture anodes. New construction.
- Refineries. Expansion.
- Cotton mills. Expansion and new construction. (Budapest, Pestszentloerinc, Szeged)
- Rayon manufacture. Expansion (Nyergesujfalu)
- Plant for the making of cellulose from agricultural by-products. New construction. (Csepel)
- Coal distilling plant. New construction. (Pecs)
- Electrolytic copper plant. (Csepel)

The list is not exhaustive, and no complete list can be drawn up as no complete list on the planned construction and expansion work has been published.

No details are given concerning capacity, except in a few isolated cases. On the basis of eyewitness accounts, some of the reconstructed works, notably the Ganz electrical engineering plant in Budapest, greatly exceeded the old plant in capacity.

Transport and Communications

In transport and communications, the aim of the plan was the rehabilitation of the transport system which suffered very heavy damage in the war. Costs were budgeted at 676 million forints. The capacity of the transport system, about 75 percent of prewar when the plan was launched, was to reach, and in some cases even exceed, the prewar capacity.

The main items listed in the blueprint were the following:

Railways: the reconditioning of the principal railway lines; some extension of the double track system; the reconstruction of the single, electrified line (Budapest-Vienna); the starting of electrification of another line (Budapest-Hatvan, connecting an iron and coal district with Budapest); the reconstruction of five of the principal and all the smaller bridges which had been destroyed; and the rebuilding of the railway yards and stations damaged in the war.

Shipping: the refloating and reconditioning of river boats, improving harbor installations, enlargement of the central harbor in Csepel, and the construction of two canals (Sio and Danube-Theiss).

Roads: completion of the repairs of war-damaged roads, that is, the reconstruction of about 20 percent of the arterial highways and about 40 percent of the primary and secondary roads; the construction of 225 km. of new arterial highways and 1,400 km. of primary and secondary roads; the rebuilding of most of the destroyed highway bridges.

Air transport: construction near Budapest of a large airfield meeting modern requirements and capable of receiving the largest planes now in use.[34]

Telephone, telegraph, and wireless communications: the rehabilitation of the still deficient telephone and telegraph systems; the reconstruction of a 135 KW transmitting station (Budapest); the construction of another 135 KW transmitting station (Szolnok); and a third short-wave transmitting station of unknown capacity (Diosd).

34. Work on the airfield in Feribegy near Budapest was started during the war, but it was badly damaged before completion. It was used as a Russian military airfield after the war.

185 X 434 A rate of increase in the national income in the order given, ambitious as it is, cannot be ruled out as impossible in a country like Hungary. But it requires continued, very heavy investments and also a great increase in productivity which, in its turn requires, besides investments, the redeployment of the labor force and very great effort on the part of the workers.

X Investments

185 454 Twenty-one percent of the national income is earmarked for investments against 10 percent budgeted and 18 percent actual investments under the Three Year Plan and 3-7 percent in the interwar period. However, planned investments as given, did not include the increase in inventories. Before the war, with the national income increasing at a very much slower rate, the increase in inventories from one year to another was not considerable. In the case of the Three Year Plan, failure to account for them was a serious error in estimating the volume of goods available for consumption. If this practice has been adhered to, the same applies to the First Five Year Plan, even if stocks reached the prewar level at the end of 1949, which is doubtful.

Before the war, the volume of the national income increased by about 400-500 million prewar pengoes from one year to another. The estimated increase in inventories was around 180 million prewar pengoes, that is, it absorbed from one third to one half of the increment. The planned 40 billion increase in the national income at "plan prices" from 1949 to 1950 would thus require, besides the listed investments in plant and installations of 8.1 billion forints, an additional 3-4 billions to increase inventories. The volume of goods available for consumption would be correspondingly smaller. Another charge against the [457] national income consists of reparations payments, at any rate until 1952. Although much reduced as a result of the Soviet decision to cut outstanding reparations by half from the middle of 1948, and the Hungarian decision to repudiate reparations due to Yugoslavia, they would still require about 0.6 billion forints in the first half of the plan period.

In the investment plan, continued emphasis is given to manufacturing and especially to heavy industry, and budgeted investments for these branches of the economy total 21.3 and 18.3 billion forints respectively out of a total of 50.9 billion. Their percentage share is 42 and 36 percent. Agriculture is allotted 8.0 billion forints or 16 percent. Indirect investments benefiting agriculture bring its share to 12.5 billions or 25 percent. Transport and building receive 7.5 and 7.4 billion forints or 15

percent each. In contrast to the Three Year Plan the new investment plan provides a reserve of 2.5 billion forints for unforseen contingencies, and 3.3 billion forints are set aside to finance work preparatory to the second Five Year Plan.

In the 1950 budget, 7.2 billion forints were earmarked for investments, that is, 45 percent of the total expenditure. The 7.2 billion forints are in keeping with the estimated total investments of 8.1 billion forints (calculated on the basis of uniform rate of increase of the national income, 10.3 percent, and uniform rate of investment, 21.4 percent of the national income). It seems that, as in the Three Year Plan, savings were supposed to provide the funds for the increase in inventories.

For purposes of comparison the allocation of investments under the Three Year Plan and the First Five Year Plan is summarized in the following table:[3]

	Percentages of Total		
	Three Year Plan		Five Year Plan
	Budgeted	Actual	Budgeted
Manufacturing	27	32	42
Agriculture[4]	30	29	16
Transportation	25	19	15
Building	18	18	14
Distribution	--	2	2
Other	--	--	11
Total Percentage	100	100	100
Total, billion forints	6.6[5]	10.3[6]	50.9[7]

Agriculture

The increase in agricultural production is set at 42 percent above the 1949 level. The volume of crops is expected to increase by 35 percent, the output of the livestock industry by 51

3. For details see Table III in the Appendix.

4. About half of the investments in agriculture ought to have been listed under other headings. The agricultural investments under the First Five Year Plan, given as the 16 percent, represent agricultural investments proper. With indirect investments the share of agriculture rises to 25 percent.

5. January 1947 prices.

6. Current prices. At January 1947 prices about 8.3 billion forints.

7. "Plan prices" which seem to be about 20 percent higher than January 1947 prices.

The national grid will be extended and 850 km. of high-tension cables will be added to the existing 8,200 km.[13]

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Manufacturing Industry[14]

In the fifteen years of 1925-1939, the gross output of the manufacturing industry increased by about 70 percent. Industrial output in 1954 is planned to be twice as high as in 1949. Since the level of industrial production in 1949 was claimed to have been around 50 percent above prewar level, the planned rise will result in output nearly three times as great.

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The increase will be very unevenly spread. It will be much greater in the heavy industries than in the light industries.[15]

Within heavy industry, the development of engineering and especially the production of machine tools will be speeded up. The output of the latter is planned to be nearly 233 percent higher in 1954 than in 1949 when it was given as 185 million forints at January 1947 prices. It is intended to undertake the production of new items: diesel tractors, combines, corn-harvesting machines, road-building machines, mining machinery, automatic looms, trolley busses. Mass production methods will be introduced and greater specialization achieved.

Investments in heavy industry are budgeted at 4.2 billion forints. A number of new plants will be built, including a high grade steel plant, foundries, machine tool works, plants to manufacture machinery for flour mills, textile machinery, oil pumps, diesel engines, heavy and light iron constructions, etc. Some of these plants will be built on the Danube, others in the north-east, already a center of heavy industry.

[454].

The output of mass-produced iron goods (nails, screws, agricultural implements, household goods, etc.), that of instruments, appliances, electrical machinery and appliances will be increased by 101 percent over 1949 and will reach 3.8 billion forints in 1954.

The plan provided 0.9 billion forints for investments. Some new plants are planned to produce kripton gas, telephone and wireless appliances.

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13. Their length was 8,105 km. in 1946. The most important line in construction, connecting the new Mátravidéki power plant with Budapest, may have been completed by 1949 and brought into total length to about 8,200 km.

14. Available figures are summarized in Tables III, IV, Va and Vb in the Appendix. For physical output of two principal products, see Table VII.

15. In the terminology now used in Hungary, heavy industry includes mining, metallurgy, the iron and metal industry, engineering, power, clay-brick-earthenware manufacture, glass and chemicals. In this paper the phrase is used in its ordinary sense, unless stated otherwise.

34 percent. Iron, metal and engineering showed a 41 percent increase. 433

Output of the principal goods is quoted on the basis of the percentage of output in the corresponding period of 1949 and the list of goods is very restricted. Output of coal was 20 percent, oil 3 percent, iron ore 16 percent greater. Output of power increased by 21 percent. The output of producer goods seems to have increased considerably more than that of consumer goods. Phosphate fertilizers, cement and tractors head the list with 132 percent, 109 percent and 91 percent increases, respectively. The production of woolen and cotton fabrics increased by 8 percent only.

The volume of building was claimed to have been as great in the month of March as in the first quarter of 1949. Private information received from Hungary substantiates the claim to high building activity. But most of the buildings seem to be government offices or factories.

It is claimed that the number of workers in mining, industry and building increased by 27,000. If the estimate of their number at the end of 1949 was correct, 440,000 in mining and industry and 130,000 in building, the increase amounts to 4 percent. Accelerated training courses had been completed by 13,400 apprentices, 5,300 of them in the iron, metal and engineering industries. It is not clear whether they were included in the figure quoted above. 464

Productivity in the heavy industries showed a slight decline against December 1949, the postwar peak, while light industry recorded a 7 percent improvement over the same period. Average hourly wages increased by 8 percent in the manufacturing industry, bringing with them a corresponding increase in real earnings as there was no change in the cost of living. Private sources report a shortage of some important foods which does not seem to be reflected in the cost-of-living index number. 461 465 433

Railway traffic is claimed to have surpassed the corresponding 1949 figures by 35 percent in ton-miles and 22 percent in passenger-miles. 497

Both the number and the turnover of state wholesale and retail stores and cooperative village stores were reported to have increased considerably. 438

Investments were 58 percent greater than in the corresponding period last year; that is, the state invested 1.2 billion forints against 0.7 billion last year. 454

Building activity has been speeded up. In comparison with the corresponding period last year, the volume of construction of buildings of all kinds was 152 percent greater and in other constructional work 237 percent. Over the period the number of workers engaged in construction work increased by 26,000.

At the same time an increase of 17,000 workers was claimed in the mining and manufacturing industries. As the increase was reported to be 31,000 in the first quarter of 1950, the total increase in the first half of the year would be 48,000. At the end of 1949 the total number of workers in mining and manufacturing was an estimated 440,000, and in building an estimated 130,000.

In contrast to the first quarterly report, the second quarterly report keeps silent on the question of productivity and wages.

Passenger-miles and ton-miles of the railways were above those in the corresponding period in 1949 by 32 percent and 18 percent respectively.

Both the number and the turnover of the state and cooperative village stores were reported to have increased considerably.

Investments of the state, now the only investor, amounted to 1.8 billion forints against 1.2 billions in the first quarter. Very reticent on the matter of finance, the report only states that the expanded investment program did not affect the balance of the budget.

A few weeks before the report[1] was published, the Chairman of the People's Economic Council reported on the progress of the people's economy to the Central Executive of the Hungarian Workers' Party. The picture he drew was in some ways more revealing than the text of the report, and fits better into the picture that can be pieced together from events and incidents reported in the party press, from information that trickles through, and from the government measures.

According to the statement, the wage bill in the manufacturing industry increased by 24 percent between April 1949 and April 1950, while the increase in real wages was even greater. Increases in other employment were smaller but still considerable. The Five Year Plan anticipated an overall increase in the standard of living of 35 percent in five years. But in the first four months of 1950, real earnings per capita in the manufacturing industry increased by 18 percent while this improvement was accompanied by an increase in productivity, as measured in volume of output per working hour, of only 9 percent. In comparison with prewar, the level of real earnings was 62 percent greater.

[1] [i.e. the second quarterly report of 1950 — Analyst]

Soon after the warning of the Chairman of the People's Economic Council, a new wage system was introduced which reduced earnings unless output was stepped up considerably. The wage-reducing effect of the new piece-rates was first denied but later openly admitted. It led to widespread resentment expressed in wage frauds, the slackening of work competition and acts of sabotage which prompted the government to resort to strong measures. A new decree was issued to protect social property, threatening the death penalty to those responsible for serious damage. Together with the revision of wage rates, the terms of the work competition were made stricter and control was tightened. Identification cards were introduced showing a record of employment, and unauthorized changes of jobs brought punishment. "Social tribunals," consisting of workers and party representatives, were set up to deal with slackness, lack of discipline, and minor frauds while ordinary courts began passing sentences of several years imprisonment for relatively minor wage frauds. The reform of the criminal law made a socially dangerous attitude a crime liable to punishment, and introduced forced labor as a method of punishment.

All this fits very unconvincingly into the picture of greatly improved standards of living. One is led to suspect that the true rate of improvement must have been very much below that claimed, if attempts to slow down the rate and lower the level could have evoked such widespread and serious resentment as indicated by the severe retaliatory measures.

Nevertheless, there was no slackening in the execution of the investment program. Recent announcements speak of even speeding up investments scheduled for 1950 by 0.9 billion forints, that is, by about 10 percent. But 38 percent of the additional investments were to be spent on housing, cultural and welfare schemes, 43 percent on railway and road construction, the rest on agriculture.

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

Table II

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INVESTMENTS, ACCORDING TO CHARACTER OF INVESTMENTS AND INVESTORS UNDER THE THREE YEAR PLAN

Million Forints (Current Value)

	Total	State	Other Public Bodies	Foreign	Cooperatives	Private
First Year, 1947-48						
Agriculture[a]						
Budgeted	579.4	476.0	34.7	-	27.1	41.6
Actual	688.0	440.9	53.3	-	20.5	173.2
Industry						
Budgeted	554.0	417.9	43.9	36.3	1.4	54.5
Actual	792.0	495.4[b]	13.9	101.0[c]	-	81.7[b]
Transportation						
Budgeted	427.3	328.3	75.9	6.2	2.1	14.8
Actual	545.4	393.5	42.9	-	0.8	8.2
Building						
Budgeted	235.3	104.3	115.1	-	5.4	10.5
Actual	468.7	235.8	219.6	-	0.7	12.6
TOTAL						
Budgeted	1,796.0	1,326.5	269.6	42.5	36.0	121.4
Actual	2,494.1	1,565.6[b]	529.7	101.0[c]	22.0	275.7[b]
Total, 1947-1949						
Agriculture[a]						
Budgeted	2,000.0	1,358.0	197.1	-	208.0	236.9
Actual	2,990.0	N.A.	N.A.	N.A.	N.A.	N.A.
Industry						
Budgeted	1,745.0	1,239.2	158.5	130.0	5.2	212.1
Actual	3,250.0	N.A.	N.A.	N.A.	N.A.	N.A.
Transportation						
Budgeted	1,676.0	1,305.2	284.0	21.1	12.3	53.4
Actual	1,980.0	N.A.	N.A.	N.A.	N.A.	N.A.
Building						
Budgeted	1,164.0	484.5	536.0	-	55.0	88.5
Actual	1,840.0	N.A.	N.A.	N.A.	N.A.	N.A.
TOTAL						
Budgeted	6,585.0	4,386.9	1,175.6	151.1	280.5	590.9
Actual	10,300.0[d]	N.A.	N.A.	N.A.	N.A.	N.A.

Source: National Planning Office, The Hungarian Three Year Plan (Hung.); Report on the First Year of the Three Year Plan (Hung.); Final Report on the Three Year Plan, Hungarian Central Statistical Office, Statistical Review (Hung.) 1950, Vol. XXVII. Nos. 1-2, pp. 75.

Note: The figures have been rounded off and do not always add up to the totals.

a. As stated officially, about half of the investments under Agriculture ought to have been listed under the other headings.

b. Private investments in manufacturing industry prior to nationalization, 142 million forints, listed under State investments. True State investments 1,324 million forints, true private investments 418 million forints.

c. Soviet - Hungarian Companies: 27.5 million forints, Foreign Credits 73.5 million.

d. Including 258 million forints other investments (Distribution, etc.).

Table III

BUDGETED INVESTMENTS: ACTUAL AND PLANNED INCREASES IN PRODUCTION

	Budgeted Investments, 1000 Fl.				Percentage Increase in Volume of Production			
	Total		Per Year		Actual		Planned	
	Three Year Plan[a]	Five Year Plan[b]	Three Year Plan[a]	Five Year Plan[b]	1946=100	1949	1949=100	1954
Mining	493	2,465	164	493	100	142	100	155
Metallurgy	58	4,723	19	945	100	154	100	195
Power	200	3,285	66	657	100	156	100	194
Manufacturing								
Iron and Steel	139	5,150	46	1,030	100	358	100	198
Engineering	413		138					
Clay, Earthenware	11	618	4	124	100	219	100	315
Glass	5	16	2	3	100		100	136
Chemicals	252	1,934	84	387	100	213	100	238
Leather	8	139	2	28	100	226	100	178
Rubber	---	62	---	12	100	N.A.	100	254
Wood	8	78	2	16	100	279	100	178
Paper	15	165	5	33	100	255	100	156
Printing	7		2		100	225		
Textiles	84	1,051	28	210	100	200	100	152
Clothing	---	119	---	24	100	494	100	350
Food	22	1,383	7	277	100	370	100	170
Total	964	10,715	320	2,144	100	268	100	192
Total Excl. Food	942	9,332	313	1,867	100	239	100	201
Grand Total	1,715	21,188	569	4,239	100	247	100	190
Grand Total Excl. Food	1,693	19,805	562	3,962	100	220	100	198
Agriculture[c]	2,000	8,000	666	1,600	100	153	100	142

Source: National Planning Office, The Three Year Plan and Final Report on the Three Year Plan; Act XXV of 1949, re the First Five Year Plan of the Hungarian People's Republic

a. January 1947 prices. b. "Plan Prices." c. Half of the investments in agriculture under the Three Year Plan ought to have been listed under other headings.

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THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

185 was at once a reconstruction, production, and investment program, with emphasis on the first, those investments that would have an immediate effect on production and would eliminate bottlenecks being given priority.

[647] A National Planning Office was set up to detail the plan, which had been approved only in outline by the party [652] leadership. The Investment Bank and the Bank of Issue were in charge of financing operations. All activities were supervised by the Supreme Economic Council and by the Cabinet.

652 454 Of the investment of 6.6 billion forints called for by the plan (1 forint was equal to 8.52 United States cents at the official rate), agriculture was to receive 2.0; mining and manufacturing, 1.7; transport, 1.7; and building, 1.2 billion forints. Included under "agriculture" were such items as tractor and fertilizer plants, road building, rural electrification, irrigation projects, and the establishment of tractor stations. Sixty-seven percent of the total was to be met from treasury funds (taxes and loans), 18 percent by local authorities and government agencies, and the balance by cooperatives (4 percent), remaining private sources (9 percent), and Soviet-Hungarian companies (2 percent).

185 After a very promising start the plan was speeded up and it was concluded by 1 January 1950 instead of 1 August of the same year.

185 315 433 Oil was among the few basic commodities that fell considerably short of the goals. The plan called for production of 540,000 tons in 1947/48 and for 660,000 tons in 1949/50 which was later moved up to 1949 under the speed-up program. In contrast with these high expectations the actual output was only 475,000 tons (3,600,000 barrels) in 1948 and a little below 500,000 tons (3,800,000 barrels) in 1949. Thus, only 75 percent of the plan was fulfilled in oil production, and the 1949 output remained at but 59 percent of the wartime peak of 1943.

000 While mechanization in agriculture progressed, 211

1 [sic -- Analyst]

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While mechanization in agriculture progressed, 211 241
new tractor stations being set up and 4,500 tractors added 407
to an existing stock of 12,500, the plan fell short of its goal 433
in the agricultural sector, with the exception of livestock 185
which reached the prewar level. Crop production in 1949
reached only 77 percent of prewar, a near disaster.

In mining and metallurgy the plan aimed at 38 per- 316
cent above the prewar level. It called for an output valued 327
at 1.5 billion forints compared with 1.2 billion in 1938 and 328
an estimated 2.0 billion in 1943/44. In 1949 Hungary pro- 433
duced 11,844,000 tons of coal and lignite, 293,000 tons of
iron ore, 428,000 tons of pig iron, 850,000 tons of steel,
561,000 tons of bauxite, 17,000 tons of alumimum, 45,000
tons of manganese ore concentrates, and smaller amounts
of copper and lead ores. With the exception of oil and a
few other smaller items the plan was reached or surpassed.

The output of power ran about 20 percent ahead of 377
the plan and reached 2.36 billion kilowatt-hours in 1949 433
compared with 1.4 and 2.1 billion kilowatt-hours in 1938
and 1943 respectively.

The gross output of manufacturing, excluding elec- 185
tricity, was to be more than doubled to a level of 16.5 bil- 433
lion forints in 1949. While it was officially claimed that
the plan was overfulfilled by 21 percent, which would put
the value of the 1949 manufacturing output (including elec-
tricity) at 20.8 billion forints, this claim is definitely too
high and should be revised downward, to perhaps 14 bil-
lion forints or about 1.2 billion dollars.

With the exception of the leather industry it was
claimed that the output of all others exceeded the 1938 level
by margins ranging from 12 percent in textiles to 112 per-
cent in engineering in 1949. Nothing was said of the re-
fining industry. A drastic shift to investment materials [454] •
at the expense of consumer goods is apparent.

Prior to the end of World War II Hungarian indus- 382
try had used relatively large quantities of fuel oil. Re-
construction and expansion during the plan period suggest

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433 which was rated at 1,300,000 tons (10 million barrels) in 1944 plummeted to less than 100,000 tons (760,000 barrels) one year later. Reconstruction was slow at first, but gained momentum. Total existing capacity was estimated as 824,000 tons (6.36 million barrels) in 1947; 1,200,000 tons (9.1 million barrels) in 1948; and 1,600,000 tons (12.2 million barrels) in 1949. It should be noted that most Hungarian refineries built in the 1930's were equipped only for fractional distillation, and this condition remained virtually unchanged in 1947, as the more recently built large and modern plants were the ones most severely damaged during the war. It would appear that the planners counted on both increasing domestic production and large-scale imports of Romanian crude, but these assumptions failed to materialize. As a result, until at least 1948 the refineries operated at less than 50 percent of theoretical capacity. (See Table V.)[1] There are numerous reports stating that, beginning in 1949, large quantities of Austrian crude were being refined in Hungary.

185 The Three-Year Plan as a whole was ambitious but not unrealistic. It seems to have fulfilled its aim in reaching 110 to 120 percent of the 1938 production, an achievement due primarily to a forced production drive rather than to the government's investment program, the results of which could not yet be felt.

454 The investment program itself concentrated on the heavy industries, neglecting consumer goods production and agriculture.

Actual investments, adjusted for inflation, amounted to 8.3 billion forints, about 700 million dollars and exceeded the plan by 25 percent. In 1949 investment absorbed 18.7 percent of the national income to which an additional 5.3 percent must be added for inventory increase. Thus the total is 24 percent, an astonishingly high figure.

434 The true national income (reduced from exaggerated propaganda claims) appears to have been 17.4 billion forints in 1947/48 or 81 percent of prewar, and 25.5 billion forints (2.17 billion dollars) or 118 percent of prewar in 1949. This was still about 15 percent below the 1948 figure.

[1] [Cf. p. 87, category 116 -- Analyst]

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000 1949. This was still about 15 percent below the 1943 figure.

511 If adjustments are made for inflation, heavy investments, and inventory increases—not to mention such unknown but very important negative factors as rearmament and unfavorable terms of trade with the Soviet Union—it is safe to state that the Hungarian standard of living in 1949 remained considerably below the 1938 level, not withstanding official claims to the contrary, and that goods actually available to consumers remained well below the prewar level.

185 471 The plan was "overfulfilled" in its political aspects. The nationalized sector reached 84 percent in transportation, 78 percent in industry, and 59 percent in distribution. In agriculture all forests became state property and the basis of the kolkhoz system was established.

The Five-Year Plan of 1950

185 As the speeded-up Three-Year Plan was nearing completion, late in 1949, the proposed outlines of a new plan were published. Originally 35 to 37 billion forints were mentioned, but by the time the plan was passed by Parliament the figures had been revised upward to 50.9 billion forints. The Five-Year Plan of 1950, as the second communist plan was officially designated, was overhauled once more in May 1951 to conform more closely to the Five-Year Plan of the Soviet Union and to the various plans of the neighboring satellite nations.

185 454 This revision upped the total investment to 85 billion forints. These repeated increases in the total volume of investment were partly due to a progressing inflation, and partly to the increases actually needed for the fulfillment of the revised plan. According to calculations made by the United Nations Economic Commission for Europe, total investment (in constant January 1947 forints) amounted to 2 billion or 10.6 percent of the national income in 1947/48; 4.47 billion or 17.9 percent in 1949;

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6 billion or 21 percent in 1950; and 8.75 billion or 24.5 percent in 1951. To these investment figures very considerable inventory increases must be added, without which the constantly accelerating expansion program would be impossible. Inventory increases absorbed an additional 4 to 5 percent of the national income or about 0.85 billion forints in 1947/48 and perhaps as much as 1.7 billion in 1951, also figured in constant January 1947 forints. Thus, investments and inventory increases amounted to 10.4 billion forints (roughly 886 million dollars) and nearly) percent of the national income in 1951 compared with only 2.85 billion forints (about 242 million dollars) and 15 percent of the national income in 1947/48.

Revisions of the plan also gave an ever increasing share of investments to heavy industries at the expense of consumer goods industries and of agriculture. The share of heavy industry in total investments increased from 18. 6 percent in 1938 to 32 percent in 1947/48, 40.5 percent in 1950 and 48 percent in 1951; and to this must be added hidden investments listed for propaganda purposes as housing, and other indirect expenditures, such as the expansion of the transportation system. By contrast the consumer goods industry's share in new investments declined constantly from 9.2 percent in 1938 to 3.6 percent in 1951.

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Most actual production data is not available, or is highly controversial. Output data for 1952 claimed or calculated from officially released percentage increase figures are as follows: coal "more than" 18 million tons, steel 1.4 million tons, electric energy 3.7 billion kilowatt-hours. The 1954 production goals call for 27.5 million tons of coal (mostly lignite), 2.2 million tons of steel, and 6.05 billion kilowatt-hours of electric energy.

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Nothing was said in the plans about the crude oil or the refining industries beyond general statements to the effect that they will be greatly expanded.

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It appears that after the dismal failure to reach the crude production targets of the Three-Year Plan, long-range plans were drawn up only in terms of explora-

653 729 military service, and consequently the income of the seasonal workers was negligible. The solution was reached by the Government in combining the employment of returned soldiers with the performance of public works such as rebuilding the homes of flood victims, and defence projects. Public works costing 54 million pengõs bridged over the last months of the depression until the period of accelerated war-time production.

Providing for the refugees.

729 167 659 The refugee problem was an important item in the Hungarian social welfare administration. Hungarian resources were strained to the utmost in providing for the periodic influx of refugees from the former Hungarian territories. Immediately following the first world war this flow was at its peak, as we have previously stated. A similar situation occurred a second time when part of Transylvania was reoccupied. Hungarians who were left under foreign domination started to move across the new boundaries in large numbers. In order to help them to become self-supporting and be readily absorbed into economic life the Government settled them in various parts of the country. During this period of rehabilitation, from the autumn of 1939 till the end of 1942, the state spent 25 million pengõs on their maintenance.

Compensation of war bond holders.

652 457 During the last twenty years it was often necessary from the standpoint of social security to protect the interests of the small investor. In the first world war thousands had put all their savings into war bonds, and when these lost their value many of the bondholders were in dire straits. For

a long time the state was not in a position financially to restore even fractionally the original value of the war bonds, but the bondholders of limited means received Government assistance. State expenditure under this heading has amounted to 60 million pengős since 1928. The war bonds were revalued in 1942 by Act of Parliament. The bonds are now worth 5% of their original value except those of small denominations, which can be cashed at 10% of their original value. Those who were entitled to Government assistance from their war bonds will continue to receive such grants-in-aid.

Protection of the small investor.

The interests of the small investor required governmental aid at other times. The Hungarian banking institutions survived the many economic depressions (with the exception of the post-war inflation) without serious disturbance to their financial structure and without inflicting a loss on their depositors. After the consolidation of public finances it seldom became necessary for the Government to intervene on behalf of the depositors, except in the case of banks in the re-occupied territories. The Government had to render financial assistance to these to tide them over the period of re-organization. Only when the Phönix Insurance Company collapsed was there some danger of many small investors suffering losses, but steps taken by the Government averted the danger and put the whole insurance system on a sounder basis.

Social Housing Projects.

The problem of adequate housing for the industrial population in urban districts became acute during the